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Research:

Honolulu City & County, HI's GO Bonds Rated 'AA-'; Outstanding Bonds Affirmed

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SAN FRANCISCO (Standard & Poor's CreditWire) Feb. 20, 2001--Standard & Poor's has assigned its double-'A'-minus rating to Honolulu City & County, Hawaii's \$141.50 million GO bonds series 2001A and \$8.5 million GO bonds series 2001B. The bonds are scheduled to sell on Feb. 27, 2001.

In addition, Standard & Poor's has affirmed its double-'A'-minus rating and underlying ratings (SPURs) on Honolulu City & County's outstanding GO bonds. The outlook is stable.

The rating reflects Honolulu's:

- Tourism-dominated economic base, with signs of growth from improving tourism statistics and a small increase in property values following several years of decreases;
- Strong financial performance with solid fund balances, despite the recent pressures on property values; and
- A manageable debt burden, as major new capital expenditures are financed through self-supported enterprises.

The bonds are secured by the full faith, credit and unlimited ad valorem taxing authority of the city and county of Honolulu. The bonds are being issued for a variety of capital improvement projects.

With nearly 870,000 residents-- about 75% of the state's population--Honolulu is Hawaii's economic center and the center of government, transportation, finance, and education. Tourism, however, accounts for about 25% of the gross state product, and Honolulu accounts for over 50% of the state's hotel rooms and remains the islands' most visited destination. While Honolulu's above-average reliance on visitors from Japan has hindered the city's economic recovery, there have been recent signs of good overall tourism and economic growth.

The total number of visitors to Honolulu has stabilized at approximately 4.7 million per year since 1998 after a peak of 5 million was reached in 1997. Year to date information (as of December 2000) actually indicate a slight 1% increase of total visitors to almost 4.8 million. Growth in visitors resulted from both domestic and international travelers with domestic arrivals increasing 0.7% (to 2.5 million) from 1999 and international arrivals increasing 1.3% (to 2.3 million). In addition, the average length of stay increased for both domestic and international travelers; 4.6% to 7.52 days for domestic and 19.7% to 5.78 days for international. Hotel occupancy rates remain strong at 76.1% for 2000 compared to 71.9% in 1999. Honolulu is also home to most of the U.S. military activities, with major Navy and Marine bases at Pearl Harbor and Kaneohe and 35,000 active duty personnel.

After six consecutive years of declining assessed valuation, property values have stabilized and actually are projected to be up 1.5% for the 2002 tax year from 2001. In addition, growth of the tax base is expected to continue with a strong construction market with over \$1 billion of

major construction projects underway on Oahu. Honolulu's tax base totaled \$68.7 billion for 2001, equal to a high per capita market value of approximately \$79,500. At its peak in 1995, the tax base totaled \$86.9 billion. The unemployment rate at 3.93% is at its lowest level since 1993. In addition, wealth levels remain above average with median household incomes at 104% of state and 124% of US averages. Per capita income levels are at 103% of state and 106% of US averages.

Honolulu's financial management remains strong, despite the challenges presented by a declining property tax base. The city raised property tax rates to make up for shortfalls due to tax base declines, increasing the weighted average tax rate per \$1,000 from \$4.94 in 1997 to \$5.60 for 2001. As a result, Honolulu's financial position remains solid with a total general fund balance of \$58.8 million, equal to 10.2% of expenditures at the end of fiscal 2000. Unreserved general fund balances totaled \$38.2 million or 6.6% of expenditures at the end of 2000. These current fund balances are at their highest levels in the past five years. Previously, since 1996, total general fund balances have ranged from 6.8% to 8.7% of expenditures with the unreserved balance ranging from 3.7% to 5.3% of expenditures. The proposed budget for fiscal 2001 indicates balanced operations.

Debt levels are manageable, with debt per capita at \$1,394 and debt to property values at 1.7%, and should remain so as more projects are financed through self-supporting enterprises including the sewer system and the Board of Water Supply.

OUTLOOK: STABLE

The outlook reflects the expectation of continued strong financial management with solid fund balances. Honolulu's role as the economic center of the state also lends stability to the rating, Standard & Poor's said. -- CreditWire